

DISCUSSION OF SCORSONE & PRUETT: ASSESSING LOCAL GOVERNMENT FISCAL CONDITIONS THROUGH FOUR CASE STUDIES

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Summary



- This line of research is especially relevant in 2020, as many local governments struggle with sharp revenue reductions and increased expenditures
- Paper provides an interesting deep dive into four disparate state systems
- Also includes a useful inventory of all indicators used by the four states
- Would be great to expand the scope to all states that use indicator systems

- I will highlight one difference with the authors' analytical framework, elaborate on one of their recommendations and provide some information about work in two other states

Should we continue to use the ICMA Paradigm?



- Categories of Cash, Budgetary, Long-Run and Service-Level Solvency derived from ICMA's Financial Trend Monitoring System may no longer be an ideal framework for analyzing indicator systems
- In the years prior to the 1980 introduction of ICMA's Financial Trend Management System, occurrences of local government financial emergencies were quite limited; we have much more data to work with now, and can create new, more empirically based paradigms
- Also, service-level solvency is not directly observable from financial statements and is hard to measure across entities
- Of the case studies Scorsone & Pruett present, Louisiana's is notable because the Legislative Auditor chose ratios by evaluating whether they predicted 22 fiscal distress episodes including 16 from out of state

Dealing with Timing Lags



- Scorsone and Pruett correctly observe that “early warning” system data is typically stale because it is based on annual financial audits
- Consideration might be given to systematically collecting interim data:
 - Spain collects quarterly financial updates from its 8000 local governments
 - SEC has been discussing the benefits of interim financial reporting by municipal bond issuers
- State agencies could publish scores continuously as financial disclosures are received and processed rather than waiting for a cutoff date
 - This means avoiding analyses that require current year comparisons across entities
 - Louisiana uses percentiles, but they are relative to a prior (base) year
- Use machine readable data standards to automatically flow data into ratio analysis tools rather than rekeying data
 - XBRL technology used for corporate financial reporting could be applied to local government

Florida's Bifurcated System Produces a Result



- As Pew reported in 2016, the Florida Auditor General collects financial data, but does not use it to determine whether local governments are in distress
- The Auditor also works with the Joint Legislative Audit Committee and the Governor's office to identify local government financial emergencies which are defined in legislation as being *events based*, such as non-payment of obligations due to lack of funds
- In 2020, this process contributed to the dissolution of the City of Weeki Wachee, which:
 - Had a population of 9 (as well as a Mermaid Park and some businesses)
 - Annual revenues of \$71,000
 - But an Unassigned General Fund Balance of (\$1,100,000)
 - Deficit balance was due to a legal fee it was unable to pay

Florida Financial Assessment Metrics



Change in Net Position / Beginning Net Position		
Unassigned and Assigned FB + Unrestricted Net Position		Intergovernmental Revenues / Total Operating Revenues - P
Unassigned and Assigned FB / Total Expenditures - GF		Unassigned and Assigned FB / Total Revenues - G
Unassigned and Assigned FB / Total Expenditures - G		Unrestricted Net Position / Total Operating Revenues - P
Cash & Investments / Current Liabilities - GF		Total Revenues / Population - G
Cash & Investments / Current Liabilities - G		Debt Service Expenditures / Total Expenditures - G
Cash & Investments / Current Liabilities - P		Total Expenditures / Population - G
Cash & Investments / (Total Expenditures / 12) - G		Accumulated Depreciation / Capital Assets - G
Cash & Investments / (Total Operating Expenses / 12) - P		Accumulated Depreciation / Capital Assets - P
Current Liabilities / Total Revenues - G		Pension Plan Ratio % - General Employees
Current Liabilities / Total Operating Revenues - P		Pension Plan Ratio % - Fire
Long-Term Debt / Population - G		Pension Plan Ratio % - Police
Excess of Revenues Over (Under) Expenditures / Total Revenues - G		Pension Plan Ratio % - Combined
Operating Income (Loss) / Total Operating Revenues - P		OPEB Funded Ratio %
Intergovernmental Revenues / Total Revenues - G		

California System Implemented October 2019



- Implemented by California State Auditor under its legislatively-authorized High-Risk Cities Program
- Assessed 470 cities based on three years of data collected from CAFRs, state controller reports and CalPERS employer-level reports
- Cities were ranked on ten indicators
- Composite score were calculated, and used to identify eighteen high-risk cities
- State auditor's office conducted further analysis of these cities and selected five to audit
- Those five audits have been authorized by the Joint Legislative Audit Committee

California System - Indicators



Financial Indicators	Points Possible	Definition
1. Liquidity	10	General fund cash and investments divided by general fund liabilities
2. Debt Burden	15	Long-term obligations (excluding retirement obligations) divided by governmentwide revenue
3. General Fund Reserves	30	General fund unrestricted fund balances divided by general fund expenditures and transfers out
4. Revenue Trends	5	Average annual change in general fund revenues over 3 fiscal years
5. Pension Obligations	10	Sum of net pension liability and pension-related debt outstanding divided by governmentwide revenues
6. Pension Funding	5	Market value of assets divided by actuarial accrued liabilities
7. Pension Costs	5	Actuarial required pension contributions divided by governmentwide revenue
8. Future Pension Costs	5	Projected required pension contributions for FY 2024–25 divided by governmentwide revenue
9. OPEB Obligations	10	OPEB unfunded actuarial accrued liability divided by governmentwide revenue
10. OPEB Funding	5	Actuarial value of OPEB assets divided by the actuarial accrued liability